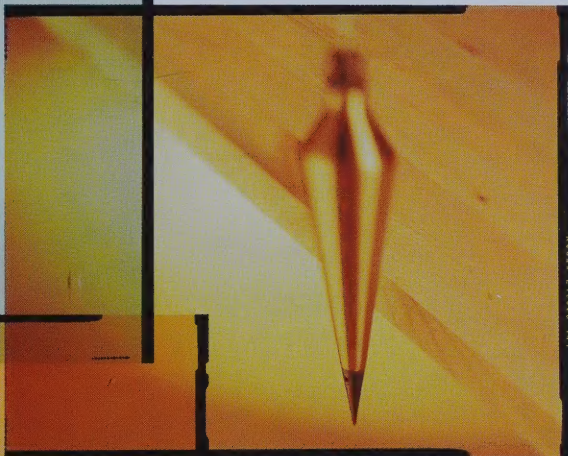


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Tools for growth

1999
ANNUAL REPORT


**SODISCO-
HOWDEN**
group inc.

SODISCO-HOWDEN GROUP IS A LEADING NATIONAL DISTRIBUTOR IN THE HARDWARE AND HOME RENOVATION BUSINESS. Sodisco-Howden offers products, merchandising and marketing services suitable to hardware stores and renovation centres across Canada. Consumers are reached through stores carrying one of the marketing banners of the Company: "Pro" and "Do-it", as well as through dealers operating their store independently or as members working under the same denomination or part of buying groups. The products distributed by the Company can be found in more than 1,500 points of sales throughout Canada, totalling \$1.4 billion in retail sales. > The Company operates five distribution centres: two major hardlines distribution centres are located in Victoriaville (Québec) and London (Ontario) carrying a complete range of products and three building materials centres are located strategically throughout the province of Québec. > Sodisco-Howden's main objective is to help its customers grow their business. Its mission is to be the preferred strategic partner of Canada's hardware and home renovation retailers. Its goal is to anticipate the needs and wants of tomorrow's consumer so it can provide the necessary support to its dealers in succeeding in this new electronic environment, through the deployment of 600 dedicated employees.

(in millions of dollars)

<i>Years ended December 31</i>	1999	1998
SUMMARY OF ANNUAL RESULTS		
Sales	423.5	363.6
EBITDA	13.2	10.4
Operating cash flow	9.3	6.5

SUMMARY OF QUARTERLY RESULTS

(in thousands of dollars)

<i>Quarter ended</i>	<i>March</i>	<i>June</i>	<i>September</i>	<i>December</i>	<i>Total</i>
Sales					
1999	74,659	130,784	113,651	104,395	423,489
1998	71,106	111,224	94,838	86,450	363,618
Operating revenue					
1999	1,835	5,187	3,571	2,562	13,155
1998	879	4,247	2,703	2,564	10,393
Earnings (loss) before taxes					
1999	131	3,264	1,843	1,235	6,473
1998	(1,126)	2,335	876	895	2,980
Net earnings (loss)					
1999	95	3,225	1,805	5,728	10,853
1998	(1,164)	2,297	839	775	2,747

(in thousands of dollars)

<i>Years ended December 31</i>	1999	1998
DEBT/EQUITY		
Bank advances	11,983	16,664
Current portion of long-term debt	967	410
Long-term debt	15,155	14,034
Total debt	28,105	31,108
Shareholders equity	34,826	21,018

MESSAGE TO SHAREHOLDERS

*Strong results position
Sodisco-Howden Group for future growth*

Fiscal 1999 was, in many ways, one of the most significant years in our Company's history. The business turnaround that began in 1997 picked up steam, resulting in significant increases in both our sales and net earnings. Sales, at \$423 million, reached their highest level since the early 1990s. For their part, net earnings more than doubled, to some \$11 million. These results clearly illustrate that management followed through on the commitments it made two years ago, the main ones being profitable growth of the Company's operations and creation of value for our shareholders.

We believe that all the necessary conditions are converging for the continuation of this growth. First, Canada's estimated \$22-billion renovation market continues to grow unabated. In addition, the distribution sector remains very fragmented. Regional companies are often finding themselves in difficult situations, which is making the ground very fertile for a wave of consolidation. In this regard, we have the critical mass and the financial strength necessary to play a leadership role, and we are actively preparing ourselves to do just that.

Among the events of 1999 that signalled positive change were the formation of a major buying group, the signing of distribution agreements with a major group of stores and the simplification of the Company's capital structure.

In January 1999, the Company announced the creation of Spancan (1999), a group formed to purchase hardware and related products. The creation of Spancan, which has buying power of more than \$500 million, had immediate favorable impacts for all of its members, maximizing their buying power and competitiveness.

Among Sodisco-Howden Group's customers are Canada's three largest buying groups: Tim-BR-Marts, Castle and Independent Lumber Dealers Cooperative (ILDC). The Company

signed agreements with ILDC for the distribution of hardware products to member stores in Atlantic Canada, Québec and Ontario. These agreements, combined with the addition of some 750 independent stores to one of the Company's banners, helped us increase our penetration of the Canadian market.

The strengthening of our capital structure, one of the many initiatives that helped maintain the Company's financial health, was also a major concern for management in 1999. Last May, holders of the Company's preferred shares agreed to convert them into common shares. In addition, at fiscal year-end, the Company reached an agreement with holders of its convertible debentures, who will have converted their estimated \$13 million worth of securities into common shares before the end of the first quarter of 2000.

These conversions are having a favorable impact on the Company's profitability and level of indebtedness. In addition, the financial flexibility resulting from this simplification of the capital structure increases the means available to the Company to make future acquisitions.

Fortified by the developments of 1999, which illustrated our focus on continuing improvement, we are now turning

our attention to what is shaping up to be a most promising future. In fact, many major projects are planned for 2000 – the 100th anniversary of the existence of the D. H. Howden division – that will help the Company maintain this momentum. Besides continuing its cost-reduction efforts, two projects are worth special note because of their strategic importance: the rationalization of the number of banners and the launch of our electronic catalogue.



In order to reposition its brand with consumers, the Company and retailers operating under its banners agreed to unite their distribution efforts and service offering under a national banner. The deployment of the new Pro banner will begin in the second quarter of 2000 and will provide these independent dealers with access to a vast range of products and management services specifically tailored to their needs. In addition, their adherence to the Pro banner will significantly increase their visibility with their customers by positioning them as stores that offer consumers choice, value and professional guidance. This repositioning, which in no way affects the Company's services to independent stores not operating under its banners, will reinforce the links between the Company and its banner stores, while optimizing the synergy between their respective areas of expertise. In short, this banner rationalization, which will lead to the creation of one of the largest network of independent retailers in Canada's hardware and renovation sectors, will help improve value for consumers and grow the businesses of both the banner stores and the Company.

Starting in fiscal 2000, information technologies will also play a predominant role in the Company's future success and in the competitiveness of its entire retailers network, mainly through the development and introduction of an electronic catalogue. A genuine virtual warehouse placed at the disposal of stores, this powerful electronic commerce tool will greatly expand the banner stores' product range

by giving them priority access to all of the approximately 75,000 products that the Company distributes. This technological innovation will also help strengthen relationships between the Company and independent dealers, in addition to improving customer service.

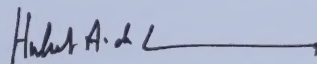
We believe that these investments in developing the Company's business are essential to the strengthening of our distribution network and the reinforcement of links with both banner and non-banner retailers, all of them strategic partners to which we remain intensely committed. These different structural and operational changes will be very profitable for the Company and will improve its growth opportunities.

Our ongoing cost-reduction program, to which we can now add the favorable impact of the Spancan buying group, is also helping to grow the Company's business. The economies achieved will, among other things, reduce the prices of the products we offer to all of our customers, thus improving our competitiveness as a distributor of hardware and home renovation products. The leadership that the Company is showing in this area is instrumental in establishing a business environment that will encourage the growth of our customers: the independent retailers.

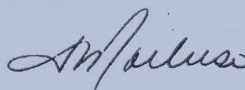
We are confident that these different measures will result in major operational and financial improvements in the coming years and that they will help us fulfill our mission of being the preferred strategic partner of Canada's hardware and home renovation retailers.

The launch of the new Pro banner, together with the investments in our electronic catalogue and the reorganization of our financial structure, lead us to be optimistic for the future. We have all the necessary assets, particularly the critical mass, to actively pursue the acquisitions and partnerships liable to stimulate our growth and create value for our shareholders.

Finally, we wish to acknowledge the invaluable contribution of all employees, whose dedication and professionalism is making a significant contribution to the Company's development. We would also like to thank the members of the Board of Directors, whose reasoned advice and practical experience ensure the sound operation of the Company, to the satisfaction of dealers and shareholders.



HUBERT A. DE LA BEAUMELLE
Chairman of the Board



D. ANTHONY MOLLUSO
President and Chief Executive Officer

With increased sales for the year ended December 31, 1999, Sodisco-Howden Group Inc. ("Sodisco-Howden") was able to maintain its ranking as the second largest hardware distributor in Canada. In cooperation with its bannered merchants, the Company decided to focus its efforts on a single banner across Canada, namely PRO. The roll-out of this banner will take place in early 2000. The Company has therefore reviewed the offer made to merchants as well as the image and design of stores so as to maximize the distinctiveness and positioning of the banner, especially in terms of service and quality-price ratio, these areas being pivotal to our merchants.

As well, the Company distributes its products to independent merchants who operate their own businesses or are grouped under the same name, and to companies operating several stores. Sodisco-Howden thus makes its procurement know-how available to them. In 1999, this sector represented 24% of its sales, compared with 16% in 1998.

Sodisco-Howden supplies hardware products to its customers from two distribution centres in London, Ontario and Victoriaville, Québec, each of which has an area of over 300,000 square feet. In Québec, the Company also distributes building materials from its three warehouses in St. Bruno-de-Montarville, Bernières and Rivière-du-Loup.

RESULTS > For the year ended December 31, 1999, Sodisco-Howden's sales increased \$59.9 million to \$423.5 million, compared with \$363.6 million last year. This 16% increase largely exceeds the 4% growth in the Canadian home renovation market for 1999. Moreover, the increase in the Company's sales stems from the development of our customer base and is not the result of transient factors such as the opening of new stores. Sales to our bannered and independent merchants grew 10.3% and 54.8% respectively.

Earnings before interest, taxes, depreciation and amortization (EBITDA) rose by 27% from \$10.4 million in 1998 to \$13.2 million in 1999. The significant growth in EBITDA posted in the year ended December 31, 1999 is the direct result of the higher sales volume. Despite the downward pressure on prices in our field of activity, the Company was able to enhance its profit margin in a number of areas. The improvement in our purchasing power coupled with our dynamic and balanced price structure helped the Company generate profit margin gains. Despite the higher sales posted in 1999, the Company's operating expenses increased less than 1% compared with last year as a result of tighter control. The ratio of operating expenses to gross profits was 0.70 in 1999 compared with 0.73 in 1998.

Financial expenses on short-term debt dropped \$700,000 to \$1.6 million in 1999 compared with \$2.3 million in 1998 due to the fact that average outstanding bank advances were \$5.6 less in 1999 than in 1998.

Long-term financial expenses totalled \$3.5 million in 1999 compared with \$3.2 million in 1998. The increase in long-term interest expenses is due to the \$3.3 million in additional mortgage financing that was granted the Company and added to its working capital. The dividends recorded under long-term financial expenses fell by more than \$100,000 in 1999, due to the conversion of preferred shares to common shares in the second quarter of 1999. Finally, financial expenses related to the debentures were up approximately \$200,000 in 1999 compared with 1998 despite the benefit derived from the conversion of slightly over \$5 million in the second quarter of 1998. The increase is the result of recording convertible debentures in accordance with the Canadian Institute of Chartered Accountants' standards for financial instruments. Under these standards, financial expenses include an amount of \$1.2 million (\$0.9 million in 1998), representing the debenture adjustment on the balance sheet. As of March 23, 2000, debentures with a nominal value of \$12.2 million and accumulated interest of \$1 million were converted into 106 million common shares. In this regard, a premium in the amount of \$0.025 for each dollar in nominal value and accumulated interest was paid to the debenture holders for a total amount of \$331,000. On March 24, the Company proceeded to redeem \$688,000 of debentures for a total consideration, including interest, of \$728,000.

Depreciation charges remained relatively unchanged in 1999 compared with 1998. Capital expenditures amounted to approximately \$1.1 million. The Company's resources were primarily allocated to glitches related to the Year 2000 date change. Depreciation charges are related solely to fixed assets.

On January 1, 1999, the Company undertook to determine whether future income tax assets were likely to be realized. These assets result from prior year losses and temporary differences that may be applied against taxable income. Based on a review of the situation and the results generated in 1999, it is reasonable to consider that the Company will likely realize future income tax assets of approximately \$4.5 million at least. In accordance with the accounting standards issued by the Canadian Institute of Chartered Accountants, the Company recorded these future income tax assets in its financial statements for fiscal 1999. On January 1, 1998, the Company had applied these new standards retroactively. Future income tax assets, net of the income tax on revenues for 1999, totalled \$4.4 million and correspond to the changes in asset and liability items that generated tax consequences in 1999 as well as the amount for large corporations tax. Furthermore, as at December 31, 1999, the Company still had \$22 million available in losses and timing differences

for which future income tax assets had not been recorded. These assets are not reflected on the Company's books.

For the year ended December 31, 1999, the Company's net earnings, before the extraordinary item related to the recording of future income tax assets, rose 130% to \$6.3 million compared with \$2.7 million for the same period last year. Net earnings amounted to \$10.9 million (\$0.04 per share) compared with \$2.7 million (\$0.01 per share) in 1998. The average number of shares outstanding in 1999 was 283 million compared with 244 million last year. As at December 31, 1999, there were 292 million shares outstanding compared with 268 million in 1998. The increase is primarily due to the conversion of 3.4 million preferred shares and related cumulative dividends into common shares. As well, on March 23, 2000, 106 million common shares were issued following the conversion of the debentures and accumulative interest. As a result of these changes to the Company's financial structure, interest expenses incurred in future years will be substantially reduced. The Company feels that the financial benefits resulting from the conversion of the debentures for the year ending December 31, 2000 will not negatively impact the Company's earnings per share for the year then ending. In 1999, the total interest expense related to the debentures amounted to \$2.6 million.

FUNDS GENERATED AND FINANCING > For the year ended December 31, 1999, cash provided by operations rose to \$9.3 million (\$0.03 per share) compared with \$6.5 million (\$0.03 per share) last year. In 1998, cash provided by operations, adjusted to take into account changes in non-cash working capital items, and the surplus of \$3.3 million from the mortgage financing that was added to the Company's cash position, reduced bank advances by \$4.7 million. The bank advances totalled \$16.7 million as at December 31, 1998 compared with \$12 million for the same period in 1999. Moreover, the Company's working capital as at December 31, 1999 shows an increase of \$15 million to \$24 million compared with \$9 million on the same date in 1998.

On September 30, 1999, the Company signed improved terms and conditions for credit facilities with Bank of America. The Company has access to credit facilities of up to \$40 million. As at December 31, 1999, these facilities amounted to \$12 million.

As at December 31, 1999, accounts receivable stood at \$40 million, an increase of \$11 million over the same period last year. This hike is due to the sales growth experienced in the fourth quarter of 1999 compared with the same period last year as a result primarily of the uncertainty surrounding the year 2000 date change, which sharply increased the number of transactions. Inventory also increased by \$6 million as at December 31, 1999 compared with 1998. This growth is attributable to the level of orders placed by the Company's merchants for early 2000, inventory made available as part of a contingency plan designed to handle problems related to the Year 2000 date change, and the introduction of new product lines required for the Company to generate sales growth.

As at December 31, 1999, shareholders' equity stood at \$35 million compared with \$21 million in 1998. This increase is explained by the conversion of 2.8 million preferred shares that were entered under liabilities and the earnings generated in fiscal 1999. Moreover, as a result of the conversion of debentures that took place on March 23, 2000, shareholders' equity increased \$4 million to \$39 million.

RISKS AND UNCERTAINTIES >

The main risks and uncertainties facing the Company in the hardware and renovation markets are the raiding by competitors of its merchants operating under any one of its banners; sharp competition in the retail market; potential economic slowdown, particularly with respect to housing starts and home renovation projects; and finally, more aggressive competition from combinations of some of our competitors.

The Company generates sales through its two main customer bases: bannered merchants and independent merchants, members or not of groups that purchase building materials such as Castle, Tim-BR-Marts, ILDC, Homecare, Sexton and Award. The Company's relationship with each customer base is a function of its needs. It may include flexible business training through the banner program or the Company may act strictly as a supplier through its efficient supply system that is very much appreciated by our independent merchants.

In late 1999, the Company decided, in cooperation with its network of bannered merchants and based on a strategic thinking process, to offer a single national banner at more than 750 sales outlets across the country. The PRO store concept is intended to build on

the intrinsic strengths of a business in which merchants remain in proximity to their markets, namely service and know-how. A stronger visibility for the new PRO banner can now be viewed as an option for independent merchants who prefer to manage their stores without having to follow guidelines imposed on them by cooperative or quasi-corporate movements. Moreover, the Company expects to maintain and even increase its sales to independent customers in order to ensure that the volume for this customer base is more representative in terms of total sales.

Sodisco-Howden's merchant partners are in competition with other bannered networks, cooperatives and independent retail groups, some with a national scope and others covering a more regional area. Their entrepreneurial spirit, supported by the Company's solid network and marketing programs help them to remain competitive, grow their businesses as to allow them to increase their market share. Moreover, big box stores located in major urban centres play a small role in the competitive environment facing Sodisco-Howden's affiliated merchants, most of whom operate in the regions.

Merchants' sales can be affected by economic cycles at different levels. However, these merchant-

entrepreneurs control their own operations. They can therefore react faster when required because their smaller infrastructure provides them with the necessary flexibility in difficult economic times. Sodisco-Howden operates throughout Canada, and the Company's revenues are fairly well balanced among the regions it serves. Given that economic fluctuations do not impact everywhere at the same time nor in the same fashion, the Company considers that it is therefore less vulnerable. As well, the Company remains cautious and ensures that its operations have the flexibility needed to cope with changes in economic activity.

The Canadian hardware and renovation market is a mature and fragmented one. Essentially, most companies operate regionally. Sodisco-Howden operates nationally. The Company aims to strengthen its national position to enhance its leadership role as the preferred strategic partner for the independent merchant who operate in the Canadian hardware and home renovation market. The Company intends to do so through strategic alliances and acquisitions.

YEAR 2000 > In 1997, the Company set up a Year 2000 Committee, requiring the involvement of major stakeholders to identify the risks, make the required corrections, ensure the methodology applied is consistent throughout the Company and check the tests performed. All measures taken, including test results and the evaluation and management of the potential risks upstream and downstream, have been documented. The Committee periodically reported on its progress to the Audit Committee and the Board of Directors.

The Year 2000 Committee contacted the Company's suppliers to inquire about their year 2000 readiness and monitored their progress. An evaluation of the computer environment and the related conversion process was conducted with the Company's customers and follow-up was carried out throughout the year.

The systems conversion was completed on schedule at the end of the third quarter of 1998. Sodisco-Howden simulated the year 2000 date change at the end of the fourth quarter of 1998 and at the beginning of the fourth quarter of 1999, and tested various computer systems and other office equipment identified as critical. The applications verified passed the simulation tests and both on and following the critical date of January 1, 2000, no difficulties with the Company's systems were reported.

The Company had developed a contingency plan to ensure that all necessary measures had been taken so that it could confidently and efficiently continue its operations before and after the year 2000 date change. The Company made all necessary provisions to keep abreast of the other critical year 2000 dates. However, it is still impossible to know whether all problems which could arise with the year 2000 issue have already been identified and therefore resolved, whether they are related to customers, suppliers or the Company itself.

OUTLOOK > Throughout 1999, the Company reviewed its strategic plans to validate its growth targets for the coming years. As a result, the Company intends to maintain its commitment regarding the supply chain to its network of bannered dealers and to independent merchants. With respect to the banner network, the Company needed to develop a strong presence and also create visibility on a national scale by bringing all its banners under the PRO logo followed by the type of business: hardware or home centre. The Company will support the launch of the new banner with an advertising campaign at the national and regional levels.

In 2000, the Company intends to benefit from its network of over 750 dealers under the PRO banner in Canada and thus boost sales. Sodisco-Howden is confident that the required investments for the positioning of its new PRO banner will be offset by the steady rise in profitability.

In addition, the Company believes that the development of e-commerce will increase the competitiveness of its network, in particular through an electronic catalogue to be launched in spring 2000. The catalogue will enable dealers to offer a wider selection of products, approximately 75,000 products, through a virtual distribution centre.

The settlement of the debentures within the Company's financial structure will enable it to substantially increase its profitability and financial flexibility for potential acquisitions. The Company will seek out and use business opportunities to increase its market share.

MANAGEMENT'S REPORT

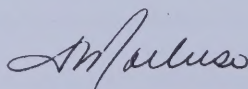
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING >

The consolidated financial statements of Sodisco-Howden Group Inc., including the notes to the financial statements presented in this report, have been prepared in accordance with generally accepted accounting principles in Canada and are the responsibility of management. The financial information contained elsewhere in this report is consistent with that in the financial statements.

The Company has established the necessary accounting systems, policies and procedures to provide reasonable assurance as to the reliability of the financial information and to safeguard the assets.

The Audit Committee of the Board of Directors is composed of a majority of outside directors. It reviews in detail the consolidated financial statements and recommends their approval to the Board. The Committee also examines quarterly financial results regularly. The external auditors of the Company meet with the Audit Committee, without management's presence, to discuss the findings of their audit.

The Company's external auditors, Raymond Chabot Grant Thornton, are appointed by the shareholders to provide an objective, independent review of management's discharge of its responsibilities as it relates to the fairness of reported operating results and financial position. Their report is given hereafter.



President and Chief Executive Officer

D. ANTHONY MOLLUSO
St. Bruno-de-Montarville, March 27, 2000



*Vice-President Finance
and Chief Financial Officer*

DENIS CHABOT, c.a.

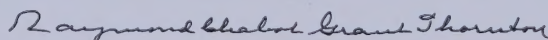
AUDITORS' REPORT

TO THE SHAREHOLDERS OF SODISCO-HOWDEN GROUP INC. >

We have audited the consolidated balance sheets of Sodisco-Howden Group Inc. as at December 31, 1999 and 1998, and the consolidated statements of operations, retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles in Canada.



*General Partnership
Chartered Accountants
Montreal, March 27, 2000*

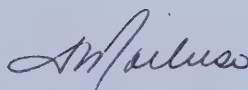
CONSOLIDATED BALANCE SHEETS

(in thousands of dollars)

December 31	Pro-forma (Note 16) 1999	1999	1998
ASSETS			
Current assets			
Accounts receivable (Note 3)	40,445	40,445	29,826
Inventories	40,787	40,787	34,893
Prepaid expenses	875	875	802
Future income taxes (Note 2)	4,530	4,530	—
	86,637	86,637	65,521
Investments (Note 4)	1,091	1,091	1,029
Fixed assets (Note 5)	24,523	24,523	25,164
	112,251	112,251	91,714
LIABILITIES			
Current liabilities			
Bank advances (Note 6)	13,042	11,983	16,664
Accounts payable (Note 7)	48,635	49,320	39,588
Current portion of long-term debt (Note 8)	967	967	410
	62,644	62,270	56,662
Long-term debt (Note 8)	10,480	15,155	14,034
	73,124	77,425	70,696
SHAREHOLDERS' EQUITY			
Equity component of convertible debentures (Note 8b)	—	11,071	11,159
Capital stock (Note 9b)	38,249	22,877	19,677
Retained earnings (deficit)	878	878	(9,818)
	39,127	34,826	21,018
	112,251	112,251	91,714

The accompanying notes are an integral part of the consolidated financial statements.

For the Board of Directors,



Director
D. ANTHONY MOLLUSO



Director
HUBERT A. DE LA BEAUMELLE

CONSOLIDATED RETAINED EARNINGS (DEFICIT)

(in thousands of dollars)

Years ended December 31	1999	1998
Deficit, beginning of year	(9,818)	(12,503)
Net earnings	10,853	2,747
	1,035	(9,756)
Share conversion expenses	(130)	-
Cumulative dividends on first preferred shares, series 2	(27)	(62)
Retained earnings (deficit), end of year	878	(9,818)

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands of dollars,
except for per share information)

Years ended December 31	1999	1998
Revenue	423,489	363,618
Earnings before the following items	13,155	10,393
Dividends on second preferred shares, series A	3	170
Interest on short-term loans	1,600	2,321
Interest on other loans	3,458	3,032
Depreciation of fixed assets	1,655	1,907
Gain on sale of fixed assets	(34)	(17)
	6,682	7,413
Earnings before income taxes	6,473	2,980
Income taxes (Note 10)	(4,380)	233
Net earnings	10,853	2,747
Net earnings per share	0.04	0.01
Weighted average number of common shares (in thousands)	282,932	243,642

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOWS

(in thousands of dollars)

Years ended December 31	1999	1998
OPERATING ACTIVITIES		
Net earnings	10,853	2,747
Depreciation, gain on sale of fixed assets and other	1,617	1,932
Future income taxes	(4,530)	-
Interest on convertible debentures	1,382	1,631
Dividends on second preferred shares, series A	3	170
	9,325	6,480
Changes in working capital items (Note 12)	(6,854)	5,622
Cash flows from operating activities	2,471	12,102
FINANCING ACTIVITIES		
Bank advances	(4,681)	(11,616)
Issue of common shares further to the exercise of stock options	16	7
Long-term debt	3,500	-
Instalments on long-term debt	(799)	(323)
Share conversion expenses	(130)	-
Cash flows from financing activities	(2,094)	(11,932)
INVESTING ACTIVITIES		
Investments	(25)	274
Additions to fixed assets (Note 5)	(427)	(466)
Disposal of fixed assets	75	22
Cash flows from investing activities	(377)	(170)
INCREASE IN CASH AND CASH EQUIVALENTS	-	-

The accompanying notes are an integral part of the consolidated financial statements.

December 31, 1999 and 1998
(Amounts in tables are in thousands of dollars)

1 > GOVERNING STATUTE

Sodisco-Howden Group Inc. is incorporated under Part 1A of the Companies Act (Quebec).

2 > ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries.

CASH AND CASH EQUIVALENTS

The Company's policy is to present cash and temporary investments having a term of three months or less from the acquisition date with cash and cash equivalents.

INVENTORY VALUATION

The inventories are valued at the lower of cost and net realizable value. Cost is determined by the first in, first out method.

INVESTMENTS

Investments are presented at cost.

FIXED ASSETS

Fixed assets are valued at cost less related grants and are depreciated over their estimated useful lives according to the following methods and annual rates:

	Methods	Rates
Buildings and land improvements	Straight-line and diminishing balance	2 1/2% to 5%
Furniture, fixtures, equipment, tools and automotive equipment	Straight-line and diminishing balance	5% to 33 1/3%

TRANSLATION OF CURRENCIES

Monetary assets and liabilities resulting from currency transactions are translated into Canadian dollars using the year-end translation rate. Purchases are translated at the exchange rate prevailing at the date of payment. Gains and losses on translation are included in the statement of operations.

SEGMENTED INFORMATION

The Company's operations consist of one major segment which is wholesale distribution in the hardware and home renovation industry in Canada. Accordingly, no segmented information is presented.

INCOME TAXES

Effective January 1, 1998, the Company changed its method in accounting for income taxes from the deferral method to the liability method of tax allocation with the early adoption of Section 3465 of the Canadian Institute of Chartered Accountants' Handbook, *Accounting for Income Taxes*. The Company has applied the new recommendations retroactively. This change had no material impact on opening retained earnings or on any of the financial statements presented in 1998. Under the liability method of tax allocation, future income tax assets and liabilities are determined based on the differences between the financial reporting and tax base for assets and liabilities, and are measured using substantively enacted tax rates and laws that are expected to be in effect during the periods in which the future tax assets or liabilities are expected to be realized or settled.

CASH FLOWS

During 1999, the Company adopted retroactively the Canadian Institute of Chartered Accountants recommendations on the presentation of the cash flows statement. In previous years, the Company presented information on changes in cash position. This change has led to a decrease in cash flows from investing activities of \$663,000 (decrease of \$313,000 in 1998) and a decrease in cash flows from financing activities of \$5,344,000 (decrease of \$11,867,000 in 1998).

3 > ACCOUNTS RECEIVABLE

	1999	1998
Trade accounts	41,303	30,700
Less: trade accounts presented on a long-term basis	858	874
	40,445	29,826

4 > INVESTMENTS

	1999	1998
Trade accounts (a)	858	874
Shares in buying groups	233	155
	1,091	1,029

(a) The Company has reached agreements with certain merchants to defer receipt of amounts due beyond one year. Certain amounts bear interest at variable rates and are secured by assets held by these merchants. Given the nature of these agreements, these amounts are presented on a long-term basis, net of the portion receivable on a short-term basis.

5 > FIXED ASSETS

	1999		
	Cost	Accumulated Depreciation	Net
Land	3,930	—	3,930
Buildings and land improvements	27,576	10,898	16,678
Furniture, fixtures, equipment and tools	21,383	17,600	3,783
Automotive equipment	1,726	1,594	132
	54,615	30,092	24,523

	1998		
	Cost	Accumulated Depreciation	Net
Land	3,968	—	3,968
Buildings and land improvements	27,423	9,994	17,429
Furniture, fixtures, equipment and tools	20,357	16,743	3,614
Automotive equipment	1,726	1,573	153
	53,474	28,310	25,164

During the year, fixed assets were acquired for a total cost of \$1,053,000 (\$779,000 in 1998), including fixed assets in the amount of \$626,000 (\$313,000 in 1998), acquired under capital leases. Disbursements for the acquisition of fixed assets total \$427,000 (\$466,000 in 1998).

6 > BANK ADVANCES

In October 1999, the Company renewed a credit facility of a maximum of \$40,000,000, for a one-year period ending on October 31, 2000.

The bank advances and letters of credit are secured by movable and immovable hypothecs on the Company's present and future assets, including accounts receivable, inventories and fixed assets not yet pledged.

Bank advances bear interest at the lender's prime rate plus 0.75% or, at the Company's option, at the lender's banker's acceptance rate plus 1.875% (1.25% and 2.75% respectively, before October 31, 1999). As at December 31, 1999 the rate was 7.25%, (8% in 1998).

The Company is also required to respect certain commitments, including the commitment to maintain a minimum amount of tangible assets, and a fixed cost coverage ratio.

As at December 31, 1999, the letters of credit issued by the bank to some of the Company's suppliers of imported products and of buying groups totalled \$2,536,747 (\$2,428,844 in 1998).

7 > ACCOUNTS PAYABLE

	1999	1998
Accounts payable and accrued liabilities	48,635	38,700
Accrued interest on convertible debentures (Note 8b)	685	687
Accrued dividends on first preferred shares, series 2	-	201
	49,320	39,588

8 > LONG-TERM DEBT

	1999	1998
Mortgage loans and obligations under capital leases (a)	11,447	8,093
Liability component of convertible debentures (b)	4,675	3,532
Second preferred shares, series A (Note 9a)	-	2,819
	16,122	14,444
Instalments due within a year	967	410
	15,155	14,034

The instalments on long-term debt for the next five years are \$967,000 in 2000, \$1,017,000 in 2001, \$805,000 in 2002, \$426,000 in 2003, and \$382,000 in 2004, excluding amounts relating to the convertible debentures (Note 15 a).

A) MORTGAGE LOANS RELATING TO TWO OF THE COMPANY'S PROPERTIES
AND OBLIGATIONS UNDER CAPITAL LEASES:

	1999	1998
Mortgage loan, 8.11%, nominal value of \$7,500,000, repayable by monthly instalments of \$66,987, principal and interest, maturing on July 1, 2002	6,373	6,656
Mortgage loan, 9.4% (9.875% in 1998), nominal amount of \$4,500,000, repayable by monthly instalments of \$31,240, maturing in 2011	4,249	1,162
Obligations under capital leases bearing interest at rates varying from 7.91% to 8.91% and maturing on various dates up to 2004	825	275
	11,447	8,093

B) CONVERTIBLE DEBENTURES

The terms and conditions related to debentures issued in Europe are summarized as follows:

- > The maturity date of the debentures is June 17, 2002;
- > The series E debentures plus accrued interest are convertible, at the holder's option, into common shares at a price of \$0.125 per share;
- > The series D and DD debentures, plus the redemption premium and accrued interest, are convertible, at the holder's option, into common shares at a price of \$0.125;
- > The debentures are redeemable by the Company, by giving a 60-day notice, at their par value plus the redemption premium and accrued interest. If the Company redeems only a portion of the series D and DD debentures, the redemption will first relate to the series DD debentures.

As at December 30, 1999, the Company is committed to make changes regarding the convertible debentures (Note 15 a).

At the Company's option, the interest on the debentures can be paid in cash or through the issue of common shares if earnings before depreciation, interest and income taxes for the previous fiscal year are less than \$10,000,000. Since the Company's earnings before depreciation, interest and income taxes for the year ended December 31, 1998 exceeded \$10,000,000, the Company paid in 1999, as a cash consideration, interest totalling \$1,371,056 relating to the period of June 17, 1998 to June 16, 1999. Accrued interest for the period from June 17, 1999 to December 31, 1999 will be paid as explained in note 15 a) in accordance with the debenture conversion and redemption procedure.

The convertible debentures are detailed as follows:

Series	Interest Rate	Nominal Value	
		1999	1998
D	10.49%	6,786	6,786
DD	11.73%	4,524	4,524
E	7.50%	1,620	1,750
		12,930	13,060

As at December 31, 1999, the equity component of the convertible debentures amounted to \$11,071,000 (\$11,159,000 in 1998) and the liability component amounted to \$4,675,000 (\$3,532,000 in 1998), including an implicit interest of \$2,816,000 (\$1,631,000 in 1998). The implicit interest represents the cumulative difference between interest on the convertible debentures recorded on the statement of operations and interest actually payable, such that on maturity of these debentures, the liability component will be equal to their redemption value.

During the year, \$129,400 series E debentures were converted into common shares at the rate of \$0.125 per share (\$4,969,300 in 1998).

9 > CAPITAL STOCK

Authorized capital stock was as follows as at December 31, 1998:

Unlimited number of shares without par value

First preferred shares issuable in series:

2,650,000 series 2 preferred shares, with a cumulative dividend of \$0.65,
redeemable at a price of \$10.00 per share at all times.

Second preferred shares issuable in series:

series A preferred shares with cumulative dividend at an annual rate of 6.5% of the paid-up capital, convertible
at the holder's option into common shares until November 30, 1999, at the rate of one common share for each series
A share, redeemable at a price of \$0.50 per share at all times and retractable on November 30, 1999 at a price
of \$0.50 per share.

Voting and participating common shares.

During the year, the Company obtained statutes of amendment regarding the authorized and outstanding share capital to
convert all of the issued and outstanding first preferred shares, series 2 and second preferred shares, series A into fully paid
common shares of the Company at the rate of 71.79 and 3.58 common shares for each first preferred share, series 2 and each
second preferred share, series A respectively.

Issued and fully paid capital stock is as follows:

A) LIABILITY COMPONENT

	1999		1998	
	Number of shares	Amount	Number of shares	Amount
Second preferred shares, series A:				
Balance, beginning of year	4,583,370	2,819	4,583,370	2,649
Cumulative dividends	-	3	-	170
Conversion into common shares	(4,583,370)	(2,822)	-	-
Balance, end of year	-	-	4,583,370	2,819

B) EQUITY COMPONENT

	1999		1998	
	Number of shares	Amount	Number of shares	Amount
First preferred shares, series 2:				
Balance, beginning of year	96,431	964	96,431	964
Conversion into common shares	(96,431)	(964)	-	-
Balance, end of year	-	-	96,431	964
Common shares:				
Balance, beginning of year	267,589,214	18,713	218,091,215	12,037
Conversion of debentures	1,071,745	134	42,142,693	5,268
Conversion of interest due on debentures	-	-	7,271,506	1,401
Shares issued following the exercise of stock options	188,300	16	83,800	7
Conversion of first preferred shares, series 2 and related accrued dividends	6,922,779	1,192	-	-
Conversion of second preferred shares, series A and related accrued dividends	16,408,459	2,822	-	-
Balance, end of year	292,180,497	22,877	267,589,214	18,713
		22,877		19,677

STOCK OPTION PLAN

The Company has a stock option plan for certain officers to a maximum of 20 million shares. These options may be exercised immediately or progressively one year after they are granted and expire six or seven years after the grant date.

		1999		1998
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	7,721,200	0.10	9,770,000	0.14
Granted	150,000	0.23	1,937,500	0.14
Exercised	(188,300)	0.09	(83,800)	0.09
Cancelled	(345,000)	0.09	(3,902,500)	0.21
Outstanding, end of year	7,337,900	0.10	7,721,200	0.10
Exercisable options	5,647,400	0.10	5,297,700	0.10

Furthermore, in accordance with the long-term stock option plan in effect throughout the period and based on 1999 results, the Company has granted to eligible employees on March 6, 2000 a total of 2,936,000 stock options at a price of \$0.175 per share. These options, which expire after six years, could be exercised on the basis of 20% per year, beginning on the anniversary of the granting of the option.

10 > INCOME TAXES

The accounting for future income tax assets for the year ended December 31, 1999 is principally attributable to the use of prior years' losses and unused timing differences up to the amount of future gains, whose realization is more likely than not.

Income taxes are detailed as follows:

	1999	1998
Net earnings	10,853	2,747
Income taxes	150	233
Future income tax assets	(4,530)	—
Earnings before income taxes	6,473	2,980
Non-deductible items and other	2,307	3,194
Accounting income	8,780	6,174
Losses carried forward from previous years	(8,780)	(6,174)
Restated accounting income	—	—
Effective income tax rate (a)	40.50%	37.94%

(a) The effective income tax rate does not differ substantially from the statutory tax rate.

Amounts available to reduce income taxes in future periods are detailed as follows:

Non-capital losses maturing in:	Total
2001	5,492
2002	3,751
2003	2,582
	11,825
Amount of deductible temporary differences	21,289
Amount which can be accounted for as future income tax assets	33,114
Amount accounted for as future income tax assets	(11,185)
	21,929

According to the current tax laws and in the event of the acquisition of the Company's control, a significant portion of the tax losses could no longer be used to reduce the taxable income in future years. It is impossible at the present time to determine the amount involved and the probability that this contingency will be realized.

The revaluation of recognized and unrecognized future income tax assets is based on the Company's earnings history and future earnings which the Company reasonably expects to achieve. In preparing its future interim and annual financial statements, the Company will reassess its future income tax assets.

11 > NET EARNINGS PER COMMON SHARE

Net earnings per share were calculated by dividing net earnings for the year by the weighted average number of common shares outstanding during the year and amount to \$0.038 in 1999.

Fully diluted earnings per share taking into account the exercise of all options and the conversion of debentures amount to \$0.033 in 1999. In 1998, fully diluted earnings per share exceed net earnings per share and are therefore not presented.

12 > INFORMATION INCLUDED IN THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in working capital items:

	1999	1998
Accounts receivable	(10,619)	(1,452)
Inventories	(5,894)	(1,421)
Prepaid expenses	(73)	70
Accounts payable	9,732	8,425
	(6,854)	5,622

Cash flows relating to operations and income taxes on operating activities are detailed as follows:

	1999	1998
Interest paid	3,870	2,993
Income taxes paid	150	233

13 > CONTINGENCIES

Early in 1996, the Company sold its trucking operations and transferred certain employees to the buying company which ensures the Company's delivery service under a contract based on kilometres driven and expiring in 2000. Under the contract for the sale of the Company's trucking operations, the Company remains committed to provide the buying company with a volume of business ensuring that employees' positions are kept and that equipment is used for a certain number of years. The Company's contingent liability decreases over a nine-year period ending on December 31, 2005. Moreover, as a result of a grievance filed by certain employees, the Ontario Ministry of Labour ordered the Company, on January 28, 1997, to pay a premium for termination of employment of the employees transferred to the buying company. The Company is of the opinion that there has been no termination of employment and has therefore appealed this ruling.

The Company remains bound by long-term leases or liabilities assigned to the buyers at the time of the disposal of the net assets of certain subsidiaries in 1994.

As at December 31, 1999, the Company guaranteed merchants' leases for an amount of \$186,000.

The outcome of these contingencies cannot be determined at this time. However, management is of the opinion that the current provisions are adequate and it is not expected that they will have a significant impact on the Company's financial position.

UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the year 2000 issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

14 > FAIR VALUE OF FINANCIAL INSTRUMENTS ON THE BALANCE SHEET

Amounts indicated below represent the fair value of financial instruments on the Company's balance sheet calculated using the valuation methods and assumptions indicated below.

Although the fair value is intended to represent estimated amounts for which the instruments could be exchanged currently in a transaction between consenting parties, there is no market for many of the Company's financial instruments.

Management therefore attributed an operating value which only reflects changes in interest rates.

The estimated fair value of the financial instruments as at December 31 is as follows:

	1999		1998	
	Carrying amount	Fair value	Carrying amount	Fair value
ASSETS				
Accounts receivable	40,445	40,445	29,826	29,826
Investments	1,091	b)	1,029	b)
LIABILITIES				
Bank advances	11,983	11,983	16,664	16,664
Accounts payable	49,320	49,320	39,588	39,588
Mortgage loans and obligations under capital leases	11,447	11,447	8,093	8,093
Liability component of convertible debentures	4,675	Note 15 a)	3,532	d)
Second series A preferred shares	-	-	2,819	d)

The following methods and assumptions were used to calculate the estimated fair value of the financial instruments on the balance sheet.

A) FINANCIAL INSTRUMENTS VALUED AT CARRYING AMOUNT

The estimated fair value of certain financial instruments shown on the balance sheet is equivalent to their carrying amount because they are realizable in the short-term. These financial instruments include accounts receivable, bank advances and accounts payable.

B) INVESTMENTS

The fair value of accounts receivable presented on a long-term basis and the shares in buying groups was not determinable because these investments were made to maintain trade relationships that are favourable to the Company and they do not necessarily reflect the terms that would be negotiated on an arm's length basis with third parties.

C) MORTGAGE LOANS

The fair value of the mortgage loans is determined by discounting the future cash flows at market mortgage rates on the balance sheet date for similar maturity dates.

D) LIABILITY COMPONENT OF CONVERTIBLE DEBENTURES AND SECOND PREFERRED SHARES, SERIES A

The fair value of these instruments was not readily determinable. ⁽¹⁾

15 > SUBSEQUENT EVENTS

a) Pursuant to the terms of a resolution of the Board of Directors adopted on December 30, 1999, the Company offered to the holders of the Series D, DD and E debentures a \$0.025 premium per dollar of nominal value and accrued interest provided the debentures are converted no later than March 23, 2000. In addition, on January 14, 2000, the Company issued a notice to the holders of the series E debentures that on March 24, 2000, the Company would redeem all of the series E debentures outstanding at midnight March 23, 2000.

In this regard, debentures having a nominal value of \$12,242,000 and accrued interest of \$1,005,000 were converted into 105,969,512 common shares for a total consideration of \$13,247,000 and the balance of the debentures, having a nominal value of \$688,000, was redeemed for a cash consideration of \$728,000 including accrued interest of \$40,000. A \$331,000 premium was also paid to the debenture holders on the conversion of the debentures. This transaction increased the capital stock of the Company to 398,150,009 common shares outstanding.

b) On March 8, 2000, the Company announced its intention to acquire the hardware distribution activities and related assets of Smith-Barregar Group of Vancouver. The transaction is subject to a due diligence audit and will be payable in cash.

c) On March 27, 2000, the Company's Board of Directors approved a recommendation that a proposal be submitted at the shareholders' meeting regarding the consolidation of the common shares on a 20 for 1 basis.

16 > PRO-FORMA BALANCE SHEET (UNAUDITED)

The pro-forma balance sheet reflects the impact of the events mentioned in note 15 a) as though they had occurred at the balance sheet date and for which the financial statements were not adjusted.

The gains and losses from the conversion of the series D, DD and E debentures and the redemption of debentures have no significant impact on the Company's earnings.

On a pro-forma basis as at December 31, 1999, the Company would have 395,262,009 common shares outstanding.

FIVE-YEAR FINANCIAL SUMMARY

(in thousands of dollars)

<i>Years ended</i>	December 31 1999	December 31 1998	December 31 1997	December 31 1996	December 31 1995
Revenue	423,489	363,618	353,557	357,182	387,528
Earnings before the following items	13,155	10,393	8,523	5,876	7,990
Interest on short-term loans	1,600	2,321	2,727	2,780	3,816
Dividends and interest on other loans	3,461	3,202	3,504	4,274	4,881
Depreciation of fixed assets	1,655	1,907	2,529	3,292	3,415
Amortization of goodwill	-	-	-	2,267	1,474
Loss (gain) on sale of fixed assets	(34)	(17)	(152)	15	(23)
	6,682	7,413	8,608	12,628	13,563
Earnings (loss) before the following items	6,473	2,980	(85)	(6,752)	(5,573)
Expenses related to the reorganization	-	-	-	5,550	3,305
Write-down of goodwill	-	-	-	46,751	-
Write-off of deferred income taxes	-	-	-	923	-
Income taxes	(4,380)	233	167	164	240
	(4,380)	233	167	53,388	3,545
Net earnings (loss)	10,853	2,747	(252)	(60,140)	(9,118)

As at March 27, 2000

DIRECTORS

GÉRARD COULOMBE, c.r. ^{2,3}
Senior Partner and
Chairman of the Board
Desjardins Ducharme
Stein Monast

DAVID M. CULVER, c.c. ^{2,3}
Chairman
CAI Capital Corporation

HUBERT A. DE LA BEAUMELLE ^{1,3}
President
Paribas Participations Limitée

MICHAEL B. HARDING ^{2,3}
Vice-President
Paribas Participations Limitée

D. ANTHONY MOLLUSO ^{1,3}
President and Chief Executive Officer
Sodisco-Howden Group Inc.

JOS J. WINTERMANS ¹
President and Chief Executive Officer
Skyjack Inc.

LAWRENCE P. SILBER
Partner
Kelly, Howard, Santini

OFFICERS

HUBERT A. DE LA BEAUMELLE
Chairman of the Board

D. ANTHONY MOLLUSO
President
and Chief Executive Officer

DENIS CHABOT, c.a.
Vice-President Finance
and Chief Financial Officer

MARIE LAGACÉ
Secretary

SYLVIE LEBLOND, c.a.
Corporate Controller

SENIOR MANAGEMENT

PIERRE ARCAND
Vice-President
and General Manager
(Sodisco)

ROGER COURTOIS
Vice-President,
Business Negotiations and Agreements

SERGE IMBEAULT
Vice-President, Logistics

SYLVAIN PELLETIER
Director of Human Resources

PIERRE A. RACETTE
Vice-President Marketing
and Building Material Division

WILLIAM D. WILSON
Vice-President and General Manager
(D. H. Howden)

1) Audit Committee

2) Human Resources and Corporate Governance Committee

3) Executive Committee

CORPORATE GOVERNANCE

The statement of the Company's corporate governance practices
can be found in the Information Circular.

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LISTING AND SYMBOL

Toronto Stock Exchange
Common Shares (SOD)

AUDITORS

Raymond Chabot Grant Thornton

BANK

Bank of America, Canada

LEGAL COUNSEL

Desjardins Ducharme Stein Monast

INVESTORS RELATIONS

Denis Chabot, c.a.
Vice-President Finance
and Chief Financial Officer
(450) 441-6001

Une version française de ce rapport annuel
est disponible sur demande.

ANNUAL MEETING

The Annual and Special General Meeting of Shareholders
will take place at 10:00 AM, May 16, 2000
at the Delta Centre-Ville hotel
777 University Street
Montreal, Quebec.

